



TN

TDOT

Department of
Transportation

Division of Internal Audit

ANNUAL REPORT and WORK PLAN

For the Fiscal Year
July 1, 2016 – June 30, 2017

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The mission of the Division of Internal Audit is to provide objective analysis and information critical to better decision making and enhancing the overall governance capability within the Tennessee Department of Transportation.





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INTRODUCTION

The Division of Internal Audit (IA) provides audit and assurance; consulting and advisory; education and internal control assessments; and integrity/investigative services for the Department. Our commitment to delivering high-quality internal audit services is what we always strive to achieve. We provide a comprehensive slate of services designed to enhance operational processes, improve internal controls, support senior leadership initiatives, and increase stakeholder confidence.

Prioritized from a risk management approach, audit and assurance services focus audit resources on areas of high risks. Through pragmatic solutions and recommendations, IA endeavors to provide senior leadership and the function's management structure the best information they can use to make better business decisions. The collaborative approach defines our consulting and advisory services designed to initiate and address operational concerns regarding the constantly shifting business environment. Through IA's education and internal control services, we strive to provide training on ethical behavior, fraud awareness, internal controls, and the proper use of TDOT assets. Finally, IA conducts integrity and investigation services to substantiate alleged instances of fraud, waste, and abuse of TDOT funds by employees, contractors, vendors, and grantees.

IA's current staff consists of nine government accountability professionals, which include the division director, seven auditors, and a lead investigator.

MISSION STATEMENT

Our mission is to provide objective analysis and information critical to better decision making and enhancing the overall governance capability within TDOT.

VISION STATEMENT

It is our vision to become a valuable management resource that facilitates the promotion of good governance by performing high quality audit, assurance, consulting, and investigative works that:

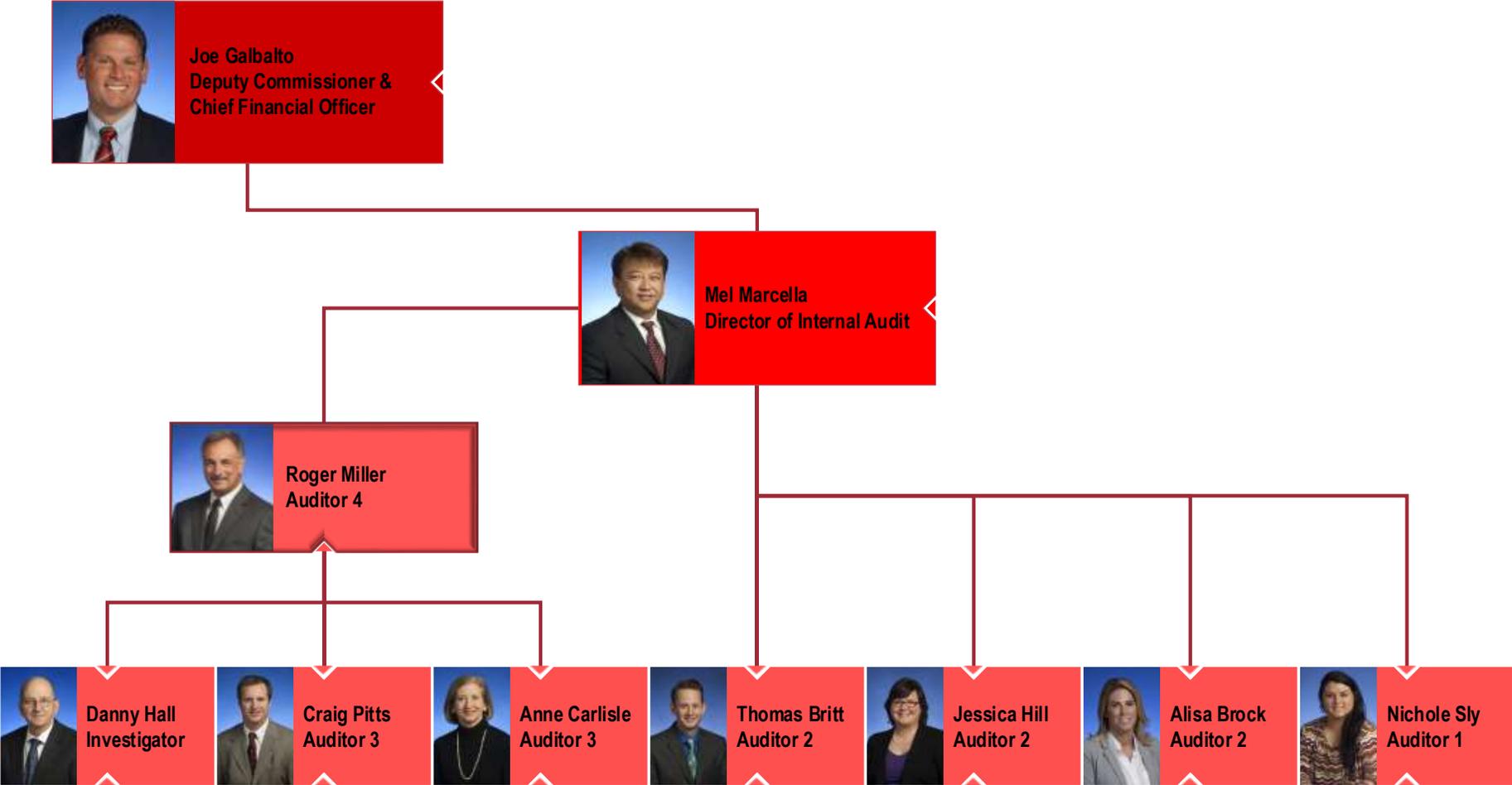
- Address key enterprise risks central to TDOT's strategies and objectives.
- Apply audit work commensurate with material risks.
- Help improve internal controls, transparency, and accountability of operations.
- Promote a tone of openness, cooperation, and mutual trust within TDOT.
- Place emphasis on areas that have heightened sensitivity to management and citizens of Tennessee.

SERVICES PROVIDED

Line of Business	Description
Audit and Assurance Services	Our Audit and Assurance Services primarily comprise <i>Performance Audits</i> . Performance audits are integrated audit engagements that evaluate operational functions, financial programs, key processes, and activities from a risk management based approach. We conduct performance audits in accordance with existing <i>Government Auditing Standards</i> (GAS), and these engagements evaluate the efficiency, effectiveness, and economy of TDOT's operations.
Consulting and Advisory Services	We provide Consulting and Advisory Services to assist our various divisions in developing pragmatic business solutions, implementing process changes, and addressing internal control deficiencies. We believe that we serve our clients best by utilizing a collaborative approach. Collaboration enables us to understand business requirements and facilitates data analytics, benchmarking, process-flow reviews, and internal control assessments designed to find solutions tailored to meet specific organizational needs.
Education Services	Education Services comprise our proactive approach to disseminate information on ethical behavior, fraud awareness, internal controls, risk management, and the proper utilization of TDOT funds and assets. In the coming year, we will endeavor to continue devising innovative communication and instructional materials to help our middle managers and employees understand the value of management internal controls.
Integrity Services	Investigations help provide management the information needed to address instances of fraud, waste, and abuse; identify perpetrators; institute controls to mitigate the opportunities for fraud to occur; and prevent the recurrence of the incident. We have developed several mechanisms such as the Fraud, Waste, and Abuse Hotline and the Fraud Reporting Form to facilitate reporting of the misuse of TDOT funds and assets. Due Diligence Reviews provide independent verification and validation activities for instances when management discovers/uncovers irregularities. Our function under these circumstances is to provide exculpatory or confirmatory information for final resolution.
Special Projects	We perform Special Engagements in response to emerging issues, abrupt changes in regulations, or changing business requirements. Services vary from limited scope engagements, enterprise risk assessment, unplanned audits, and non-audit type attestations conducted at the request of senior leadership, division directors, or a process owner.
Audit Follow-up Services	Follow-up Activities are limited reviews performed to ascertain the status of issues identified from a prior engagement. Follow-up Performance Audits are integrated audit engagements, which target specific risk areas identified in a previous audit engagement.

Source: TDOT Internal Audit

ORGANIZATIONAL CHART



Source: TDOT Internal Audit Organizational Chart as of June 15, 2016

STAFFING CHANGES

- Hired Nichole Sly, Auditor 1, on February 16, 2016
- Hired Alisa Brock, Auditor 2, on April 4, 2016

ACCOMPLISHMENTS

- Completed one scheduled audit engagement and one agreed-upon procedures review
- Successfully on-boarded two new employees and complied with Government Auditing Standards (GAS) requirements for fulfilling all IA staff continuing professional education (CPE) requirements
- Facilitated in the overhaul of the **Damage Claim Process**, which should potentially result in increased monetary recoveries for TDOT
- Facilitated the improvement of internal controls between the Maintenance Management System (MMS) and Edison to prevent instances of payroll fraud
- Increased asset security by developing physical and process controls for the **Motor Pool**
- Agreed-upon procedures engagement identified inappropriate and unallowable grant expenditures representing **\$420,277** of recoverable claims against a TDOT grantee
- Integrity Services work Identified 16 unauthorized Fuelman transactions, which equated to 1,682 gallons of fraudulent fuel purchases with a total cost of **\$3,867**
- Integrity Services work Identified 36 unauthorized time entries totaling 172.5 hours with a total cost of **\$5,119**
- Integrity Services work Identified 43 instances of grant fund misappropriation through a double billing scheme totaling \$96,720, and a cost to TDOT of **\$77,377**
- Completed continuous auditing protocols for Fuelman utilization
- Completed TDOT's annual *Enterprise Risk Assessment*
- Fully developed the revised *Construction Auditing Program* for deployment in the fourth quarter of 2016

STRATEGIC INITIATIVES

- Providing staff training on utilizing techniques and emerging technology for working *Computer/Digital Forensics* cases
- Applying the active *Enterprise Risk Assessment* using guidance from the Government Accountability Office's (GAO) *Green Book* and requirements from the Department of Finance and Administration (F&A) for compliance with Tennessee's Financial Integrity Act of 1983
- Increasing educational services by developing new internal control centered informative videos, which will be posted to our website
- Continuing the design and implementation of data-driven continuous auditing in the areas of P-Card purchases and in general procurements
- Continuing participation in Yellow Book (Government Auditing Standards) peer review opportunities within Internal and External Audit Subcommittee of the Association of State Highway and Transportation Officials (AASHTO)
- Obtaining an AASHTO Peer Review by the third quarter 2017 to demonstrate compliance with GAO Yellow Book requirements

BUSINESS RESULTS

Exhibit A – Activity Summary From the Period July 1, 2015 through June 30, 2016

Service	Results
Audit and Assurance	<p>2 Audit and Attestation Engagements Completed:</p> <ul style="list-style-type: none">• Performance Audit of the Finance Division• Environmental Division Agreed-Upon Procedures <p>2 Audits Engagements in Progress:</p> <ul style="list-style-type: none">• Follow-up Performance Audit of the ROW Division• Performance Audit of the Disadvantaged Business Enterprise <p>2 Attestation Engagements in Progress:</p> <ul style="list-style-type: none">• Human Resources Division – Family Medical Leave Act Agreed-Upon Procedures• Central Services Division – Overweight & Overlimit Fees Agreed-Upon Procedures
Special Projects and Integrity Services	<p>16 Special Projects Completed:</p> <ul style="list-style-type: none">• Developed the procedures for the continuous auditing/monitoring of entity-wide fuel purchases• Assisted in the development of asset security at the Motor Pool• Facilitated the development of <i>Damage Claim Policies</i> designed to facilitate the recovery of expenditures for incident-driven repairs and accident response• Developed revised <i>Enterprise Risk Assessment</i> to comply with <i>Tennessee's Financial Integrity Act of 1983</i>• Piloted 12 <i>Facility Security Assessments</i> throughout the state <p>1 Special Project in Progress:</p> <ul style="list-style-type: none">• P-Card continuous auditing/monitoring program <p>22 Integrity Services Completed:</p> <ul style="list-style-type: none">• Processed 29 Integrity Service Evaluations• Elevated 4 of 29 Evaluations into actual Investigations• 8 Integrity Service Evaluations remain open and in progress*

Source: TDOT Internal Audit as of June 30, 2016

*Includes one investigation processed after June 30, 2016

**Exhibit B - Investigative Activity Summary
From the Period July 1, 2015 through June 30, 2016**

Case Reference Number	Case Description	Date Opened or Referral Date	Status or Date Closed
EV 2015-011	Region 1 – Alleged Theft of Scrap Metal	8/14/15	Referred to management
EV 2015-012	Region 1 – Allegations of Employee Time Abuse	8/15/15	Closed for lack of predication
EV 2015-013	Region 2 – Alleged Inappropriate Sexual Activities	9/17/15	Closed for lack of predication
EV 2015-014	Region 2 – Inappropriate Use of Computer Resources	9/17/15	Elevated to CASE2015-003
EV 2015-015	Region 4 - Hardin County	10/14/15	Open
EV 2015-016	Region 2 – Polk County Alleged Employee Theft	12/7/15	Closed for lack of predication
EV 2015-017	Region 1 – Alleged Help Truck Fuel Discrepancies	12/13/15	Closed for lack of predication
EV 2016-001	Upper Cumberland HRA	1/07/16	Closed for lack of predication
EV 2016-002	Aeronautics DBE	1/08/16	Closed for lack of predication
EV 2016-003	Region 2 – Allegations of Drug Peddling	1/13/16	Closed for lack of predication
EV 2016-004	Region 2 – Inappropriate Use of TDOT Vehicle	2/15/16	Elevated to CASE2016-001
EV 2016-005	Region 3 – Road Rage Incident	2/16/16	Closed for lack of predication
EV 2016-006	Region 1 – Inappropriate Fraternization	2/16/16	Referred to management
EV 2016-007	Region 4 – Environmental Division Grantee	3/8/16	Elevated to CASE2016-002
EV 2016-008	Region 2 – Salt Bins	3/17/16	Open
EV 2016-009	Region 1 and 2 Trucking Company Issues	3/17/16	Referred to Dept. of Safety
EV 2016-010	Region 4 – District 48 Employee Performance	3/19/16	Referred to management
EV 2016-011	Region 4 - Inappropriate Fraternization	4/18/16	Open
EV 2016-012	Stream Mitigation – Management Referral	4/19/16	Closed for lack of predication
EV 2016-013	Comptroller's Referral – Litter Grant	5/10/16	Referred back to the Comptroller's Office
EV 2016-014	Comptroller's Referral – Vehicle Purchases	5/12/16	Referred back to the Comptroller's Office
EV 2016-015	Region 4 – Bid Rigging	5/16/16	Elevated to CASE2016-003
EV 2016-016	Morristown - Millennium	5/24/16	Open
EV 2016-017	Multimodal Division - SCTDD	5/26/16	Closed for lack of predication
EV 2016-018	Comptroller's Referral – Chevrolet Repairs	6/1/16	Open
EV 2016-019	Region 4 – Fuelman Purchases	6/15/16	Open
EV 2016-020	Region 1 – Fuelman Purchases	6/17/16	Open
EV 2016-021	Region 1 – Signs and Barricades	6/25/16	Referred to Blountville Local Government
EV 2016-022	Region 3 Car Registration	6/27/16	Referred to Department of Revenue
CASE2015-001	Region 3 – Employee Timesheet Falsification	6/9/15	Referred to management
CASE2015-002	Region 4 – Alleged Fuel Theft	6/11/15	Referred to management
CASE2015-003	Region 2 – Inappropriate Use of Computer Resources	9/17/15	Referred to management
CASE2016-001	Region 2 – Inappropriate Use of TDOT Vehicle	2/15/16	Referred to management
CASE2016-002	Region 4 – Environmental Division Grantee	3/8/16	Referred to management
CASE2016-003	Region 4 – Bid Rigging	5/16/16	Referred to management

Source: TDOT Internal Audit as of June 30, 2016

**Exhibit C – Budgeted Allocation of Work Hours
For the Period July 1, 2016 through June 30, 2017**

Engagements and Projects	Budgeted Number of Projects	Budgeted Hours
Audits and Attestations		
Audits in Progress	2	400
Attestations in Progress	2	400
Planned Audits and Attestation Engagements	6	7,000
Special Projects		
Continuous Auditing of Fuel Transactions (Quarterly Reports)	4	800
TDOT Enterprise Risk Management	1	500
Facility Security Assessments	4	2,000
Other		
Integrity Services	12	3,000
Education Services	-	300
Cumulative Hours		14,400*
Total Estimated Report Deliverables		31**

Source: TDOT Internal Audit

**Budget based on a projected resource staff of eight auditors and one investigator*

***Includes internally generated integrity services memoranda that are closed to the file*

**Exhibit D - Audit Work Plan
For the Period July 1, 2016 through June 30, 2017**

Current Engagements (As of June 30, 2016)	Status
AU 2014-002 – Civil Rights Division – Audit of the DBE Process	<i>Fieldwork</i>
AU 2016-001 – Human Resources Division – FMLA Agreed-Upon Procedures	<i>Fieldwork</i>
AU 2016-002 – Right of Way Division – Follow-Up Performance Audit	<i>Fieldwork</i>
AU 2016-003 – Central Services Division – Oversize & Overlimit Permitting Agreed-Upon Procedures	<i>Fieldwork</i>
Planned Engagements (For the Fiscal Year 2016)	Potential Audit Objectives (If Applicable)
SP 2017-001 – Continuous Audit of Fuelman Transactions	<ul style="list-style-type: none"> • Do internal controls ensure the validity of Fuelman transactions?
SP 2017-002 – Finance Division P-Card Purchases	<ul style="list-style-type: none"> • Are internal controls in place to ensure all P-Card purchases represent authorized, valid, appropriately reviewed, and properly supported transactions?
SP 2017-003 – Enterprise Risk Management	<ul style="list-style-type: none"> • Are contractors performing construction activities according to contract terms? • Are TDOT procedures compliant with existing Federal, State, and Local regulations?
AU 2017-001 through AU 2017-004 – Performance Audit of Construction Activities	<ul style="list-style-type: none"> • Are access rights to Site Manager appropriately controlled? • Do processing controls support a valid business function and ensure transaction integrity?
AU 2017-005 – Performance Audit of Site Manager Application Controls	<ul style="list-style-type: none"> • Are access rights to Site Manager appropriately controlled? • Do processing controls support a valid business function and ensure transaction integrity?

Source: TDOT Internal Audit